
Survey of Agricultural Credit Conditions

By Scott Ryckman and Alan Barkema

Agricultural credit conditions in the Tenth Federal Reserve District weakened during the second quarter of 1995, according to a survey of 295 agricultural bankers. Despite strong crop prices and a slight decline in farm interest rates, most financial indicators suggest the district farm economy remained weak during the second quarter. Farmland values stalled, cattle prices stayed low, and repayments on farm loans slumped, all pointing to some erosion in agriculture's financial health.

Farmland values stall

Gains in district farmland values slowed in the second quarter of 1995. The average value of district farmland edged up 0.1 percent during the quarter, the weakest quarterly gain in over three years. Irrigated cropland values climbed 0.4 percent, but nonirrigated cropland and ranchland values were flat (Table 1). Missouri land values led the district with an average gain of 0.6 percent in the three land classes. Nebraska land values trailed the other district states, with flat cropland values and nearly a 1.0 percent drop in ranchland values. Overall, district farmland values were up 4.5 percent from second quarter 1994, compared with a 5.0 percent gain during the same period the previous year.

Farm commodity prices fall

The stall in farmland values may reflect an outlook for weak farm incomes in 1995. The district index of farm commodity prices fell during the second quarter, dampening prospects for district farm incomes. Lower cattle prices outweighed higher grain prices to push the farm price index down 1.2 percent during the quarter, leaving the index 2.2 percent lower than a year ago (Table 2).

Crop prices were boosted by expectations of

low yields after last spring's rain-delayed planting season and the leanest grain inventories in 20 years. Cattle prices continued to slide as record supplies of beef and competing meats headed for market. Hog prices rebounded, though, restoring profits to district pork producers for the first time in a year.

Table 1
Farm Real Estate Values

June 30, 1995

(Average value per acre by reporting banks)

	<u>Nonirrigated</u>	<u>Irrigated</u>	<u>Ranchland</u>
Kansas	\$541	\$830	\$279
Missouri	788	979	503
Nebraska	754	1,243	276
Oklahoma	481	698	304
Mountain states*	345	1,049	160
Tenth District	\$598	\$1,032	\$285
Percent change from:			
Last quarter+	.1	.4	-.1
Year ago+	5.4	4.0	4.0
Market high	-29.1	-28.4	-29.8
Market low	51.1	51.7	70.6

* Colorado, New Mexico, and Wyoming combined.

+ Percentage changes are calculated using responses only from those banks reporting in both the past and the current quarter.

Source: Federal Reserve Bank of Kansas City.

Since the end of the second quarter, improving crop prospects have nudged crop prices down, but prices remain well above last year's level. The higher prices will help cushion the impact of disappointing yields for many district crop producers. Higher crop prices will also trap district cattle producers between higher feed costs and weak cattle prices. With large meat supplies restraining cattle prices, the profit outlook remains relatively bleak in the cattle industry, the district's biggest agricultural enterprise. Overall, little improvement appears on the horizon for district farm incomes following last year's sharp decline.

Farm loan repayments weaken

With farm incomes down, the rate of repayment on farm loans weakened further in the second quarter. The district index of farm loan repayments fell to 69, the lowest level in ten years. Loan repayment rates were weakest in Nebraska, where cattle are an especially large part of the farm economy. The district index of loan renewals and extensions rose to a ten-year high, indicating more farm borrowers are waiting for better times to repay their loans.

The downturn in loan repayment rates appears to be more severe for livestock loans than crop loans, as income prospects for livestock and crop producers would suggest. Nearly two-thirds of the bankers expect an increase in problem livestock loans this year, while about half of the bankers expect an increase in problem crop loans. Overall, most of the bankers anticipate a relatively modest 10 percent rise in problem loans.

Farm loan demand remains brisk

Demand for farm loans slowed in the second quarter but remained relatively brisk. The district index of farm loan demand dropped nine points but was still well above the benchmark of 100, indicating loan demand remained stronger than a year ago.

Some district bankers suggest loan demand was off somewhat due to a reduction in planted acres during last spring's extremely wet weather.

Farm loans continued to compete for a lean supply of credit. The average loan-deposit ratio at district agricultural banks rose to 62.1 percent, the highest level in 15 years. As a result, almost 6 percent of the banks refused farm loan requests due to a lack of funds, up from only 1 percent a year ago. With funds tighter, nearly a third of the bankers report they are not actively seeking new farm loans.

Farm interest rates decline

The average interest rate charged on farm loans in the district edged down six basis points during the second quarter, the first decline in a year and a half. With the slight decline, farm interest rates averaged 121 basis points above the level of a year before. At the end of the second quarter farm interest rates averaged 9.93 percent on farm real estate loans, 10.32 percent on feeder cattle loans, 10.47 percent on farm operating loans, and 10.40 percent on intermediate loans.

Outlook

The district farm economy remained weak during the second quarter of 1995. Gains in farmland values stalled amid prospects for weaker farm incomes. Higher crop prices promise to help offset disappointing yields for many district crop producers, but little improvement is expected in cattle profits. With farm incomes down, bankers expect some erosion in the quality of their farm loan portfolios. At the halfway point, 1995 promises district farmers and ranchers fewer financial gains than in recent years.

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Table 2

Selected Measures of Credit Conditions at Tenth District Agricultural Banks

	Loan demand (index)+	Availability (index)+	Loan repayment rates (index)+	Loan renewals or extensions (index)+	Average rate on operating loans (percent)	Average loan-deposit ratio* (percent)	Banks with loan-deposit ratio above desired level* (percent of banks)	District farm commodity price index (1980=100)
1991								
Jan.-Mar.	116	122	98	103	11.69	51.8	12	111.0
Apr.-June	111	122	96	105	11.46	52.3	12	107.7
July-Sept.	103	120	87	108	11.16	53.0	14	101.8
Oct.-Dec.	103	123	77	121	10.40	52.4	14	100.1
1992								
Jan.-Mar.	115	122	78	117	10.06	51.5	12	106.8
Apr.-June	109	113	84	111	9.91	53.2	13	104.5
July-Sept.	107	114	91	99	9.56	54.6	15	101.8
Oct.-Dec.	112	121	106	96	9.41	53.8	14	103.7
1993								
Jan.-Mar.	107	120	105	96	9.23	53.2	11	108.7
Apr.-June	114	115	103	97	9.12	55.3	15	107.1
July-Sept.	110	105	96	105	8.99	56.6	17	104.5
Oct.-Dec.	116	108	90	106	8.85	55.9	15	106.2
1994								
Jan.-Mar.	124	109	92	109	8.85	56.2	17	107.8
Apr.-June	127	94	89	107	9.21	59.2	23	97.2
July-Sept.	132	81	90	106	9.59	60.9	27	93.2
Oct.-Dec.	126	82	85	112	10.12	60.2	31	95.6
1995								
Jan.-Mar.	130	89	77	119	10.50	60.7	30	96.2
Apr.-June	121	96	69	125	10.47	62.1	28	95.1

* At the end of period.

+ Bankers responded to each item by indicating whether conditions during the current quarter were higher than, lower than, or the same as in the year-earlier period. The index numbers are computed by subtracting the percent of bankers that responded "lower" from the percent that responded "higher" and adding 100.

Source: Federal Reserve Bank of Kansas City.